

STATE OF VERMONT
PUBLIC SERVICE BOARD

Order entered: 1/8/2007

**ORDER RE ENERGY EFFICIENCY UTILITY'S PARTICIPATION
IN COMBINED HEAT AND POWER PROJECTS**

I. INTRODUCTION

In 2005, the Vermont legislature enacted Act 61, which authorized the Public Service Board ("Board") to consider expanding the duties of the Energy Efficiency Utility ("EEU") to "include appropriate combined heat and power systems that result in the conservation and efficient use of energy and meet the applicable agency of natural resources' air quality standards."¹

The Board held several workshops and requested comments on whether the EEU should assist in the promotion of combined heat and power ("CHP") projects, and if so, the appropriate level of the involvement. After considering the comments and proposals received, the Board has determined that it will not, at this time, collect additional funds through the Energy Efficiency Charge ("EEC") to support CHP projects. The Department of Public Service ("Department") has proposed a program design to coordinate information regarding the potential for CHP projects in Vermont and encourage the development of such projects. We find that the Department's proposal has the potential to promote CHP without imposing additional costs on ratepayers or adding to the workload of the EEU.

1. Public Act No. 61, § 6 (2005 Vt., Bien. Sess.), as codified in 30 V.S.A. § 209(d). The statute specifically states that the Board may appoint one or more entities to deliver comprehensive "energy efficiency and conservation programs and measures," including a combined heat and power program. The Board previously created the EEU under the authority of this statute and the discussions surrounding CHP focused primarily on whether the Board should expand the responsibilities of the existing entity (the EEU) to include a CHP program. While this Order focuses on the role of the EEU in implementing a CHP program, the Board recognizes that a CHP program could be created pursuant to Section 209(d) that would not involve the existing EEU.

II. BACKGROUND AND SUMMARY OF COMMENTS RECEIVED

On November 15, 2005, the Board held a workshop to address preliminary issues and develop a schedule for these proceedings. The Board requested that participants² address several questions regarding whether the Board should establish a CHP program in Vermont, what such a program could look like, whether any studies were necessary to address this issue, and the role of the EEU in such a program, were one to be created.

The City of Burlington Electric Department ("BED") stated that Efficiency Vermont should be able to "make initial suggestions about the direction a customer might pursue, demonstrate some preliminary cost-effectiveness, and help the customer compare and contrast the opportunity with potentially competitive efficiency options."

Vermont Electric Cooperative, Inc. ("VEC") stated that the Board should not "establish any additional bureaucracy to study or implement CHP." VEC contends that CHP projects tend to be individualized and must be tailored to the customer and the site. VEC further recommended that the Board authorize Efficiency Vermont to fund feasibility studies of individual projects.

Central Vermont Public Service Corporation ("CVPS") filed comments stating that the host utility for any CHP project should be involved in any procedure to implement such a project. CVPS further recommended that the Board undertake a study of the potential for, and benefits of, CHP projects that could feasibly be developed in Vermont.

The Department filed comments suggesting that some information regarding CHP potential in Vermont could be gleaned from examining current CHP projects within the state and region. The Department further stated that, if the EEU were to provide technical assistance for CHP, there should be a close examination of the appropriate funding sources for such a program.

The University of Vermont ("UVM") filed a draft "Combined Heat and Power Program Outline" that would solicit proposals from interested applicants seeking program support for CHP projects. UVM stated that the draft program would seek to overcome barriers to the

2. Because this process was not a formal docket, there were no parties and no deadlines for intervention. In this Order, we use the term "participants" to refer to all those who filed formal written comments or who asked to be included on the Board's e-mail service list for this process, regardless of the extent to which they actually attended the workshops.

development of CHP projects. The barriers identified by UVM included: the cost of borrowing capital; interconnection requirements with the host utility; stand-by charges for power, feasibility and environmental studies; and uncertainty regarding the availability and costs of fuel over the long-term.

The Board requested that participants file comments responding to UVM's draft program.

BED stated that, while the UVM draft may be a reasonable starting point for discussion, initial research should be conducted identifying the status of CHP potential and identification of barriers to successful CHP projects.

The Department filed comments stating that barriers to CHP development are primarily financial and related to particular site characteristics. The Department summarized the results of a recently conducted CHP potential study that provides a rough estimate of CHP potential in Vermont, by sector. The Department further stated that certain funding sources could be utilized to overcome some of the financial impediments to CHP projects. Finally, the Department recommended that a coalition of utilities, in conjunction with the Department, explore barriers related to interconnection requirements with the local utility.

On February 13, 2006, the Northeast Regional CHP Application Center ("NERAC") filed a letter generally agreeing with the implementation barriers identified in UVM's draft. In particular, NERAC highlighted the following barriers: interconnection requirements with the host utility; standby charges for power; environmental studies associated with air permitting; cost of borrowing capital; uncertainty of the availability and costs of fuel over the long-term; and CHP feasibility studies.

On June 8, 2006, the Department filed a Combined Heat and Power Program Proposal ("CHP Proposal"). The CHP Proposal is designed to promote CHP projects and technologies and would be administered by the Department. The CHP Proposal envisions three tasks for the Department: (1) act as a clearinghouse for CHP information to provide general CHP related education and assistance; (2) coordinate and monitor CHP-related activity in the State; and (3) target specific market sectors where CHP applications are most suitable, and work with these sectors "to promote CHP projects that suit their unique requirements." Under the CHP Proposal, the Department "will appoint a staff member to act as the CHP program manager." The

Department also suggests that, to overcome financial hurdles facing CHP projects, a potential funding source for specific CHP projects could be the Vermont Clean Energy Development Fund.

In response to the Department's CHP Proposal, comments were filed by CVPS and UVM. CVPS suggests that the Department's proposed program should target CHP projects in areas where such projects could help to defer transmission and distribution upgrades, thereby increasing the societal cost-effectiveness of the projects.

UVM generally supports the Department's proposal but suggests that the Board consider providing financial assistance for CHP projects, with funding from the EEC. UVM suggests, that, in the alternative, businesses considering CHP projects be granted an exemption from the EEC for costs incurred to support the planning and development of a CHP project. UVM further notes that interconnection issues can be a significant impediment to CHP projects. Finally, UVM recommends that interested stakeholders work with the Department to further define its program proposal.

III. DISCUSSION

After considering the comments received, the Board has determined that it is not necessary, at this time, to include support for CHP in the duties of the EEU. In recent months, the scope of the EEU's responsibilities has been expanded in response to the legislative directives of Act 61. As explained further, below, we are reluctant to assign additional duties to the EEU, particularly when the Department has proposed a program that has the potential to provide a meaningful framework for CHP development in Vermont.

The Board has recently ordered a significant increase in the EEU's 2006 - 2008 budget and directed the EEU to deliver geographically-targeted programs. As we made clear in our Order of August 2, 2006, establishing the budget for the EEU, we are concerned with the rate impact of additional funding through the Energy Efficiency Charge. Because of this we are reluctant to impose additional responsibilities at this time.

Currently there is a lack of concrete information regarding the potential for CHP projects in Vermont and the willingness of CHP developers to construct such projects in the state. The

Department has set forth a proposal that has the potential to identify CHP opportunities and promote CHP projects. We encourage the Department to engage in some form of public outreach to discuss its CHP Program and further define the parameters of the program.

Some participants have recommended that funding be provided for direct financial incentives to CHP projects to overcome barriers. The Department's proposal indicates that some funding may be available through the Clean Energy Development Fund. Additional funding opportunities may also be available through other grant sources, and we encourage the Department to identify such alternative funding sources. In addition, pursuant to 30 V.S.A. § 8005(c), SPEED (sustainably priced energy enterprise development) projects, which may include CHP projects, are eligible to receive grants from the Vermont Economic Development Authority ("VEDA").³ The Department, as a member of the Administration, may work with VEDA in shepherding projects through the loan application process.

While we decline to utilize EEC funds for CHP at this time, we do not foreclose the possibility of using the EEC at some later date to fund CHP programs. The Department's proposal presents the opportunity to learn more about promoting CHP projects in Vermont without incurring additional ratepayer costs. In order to evaluate the effectiveness of this program, and determine whether additional funding or other Board action would be appropriate, we request that the Department provide a status report, that includes a section on "lessons learned," on the efficacy of the program and any recommendations regarding the future of the program, by June 2008. If it appears that additional funding is appropriate and would benefit Vermont ratepayers, we will consider the merits at that time.

Several commenters have stated that one impediment to CHP development is electric utilities' stand-by charges for power. The Department has recommended that the utilities and the Department explore barriers to interconnection. We encourage the Department to work with potential CHP developers and utilities towards this end and also consider including in its program a function to receive comments on implementation issues associated with CHP. Additionally, any entity that perceives problems in this regard, either in a specific case or as a

3. See, 10 V.S.A. Chapter 12.

general matter, may make the Board and the Department aware of such problems and propose solutions to overcome barriers to CHP development.

We encourage the Department to include a geographic component in its program. Generation has the potential to address reliability issues in constrained areas. We therefore recommend that the Department focus on the development of CHP projects in constrained areas. Such an effort would be much more effective if there is collaboration with the affected electric distribution utility's resource planning process.

Finally, we recognize that the EEU may encounter situations where a CHP project is considered as one component of a larger project that may involve energy-efficiency measures. Because we want to encourage coordination between the energy efficiency and generation aspects of such a project, in such cases, the EEU may discuss the CHP project as it relates to energy-efficiency measures, but may not provide financial support for the CHP project itself. In such a case, the EEU should refer the CHP developer to the appropriate contact person at the Department.

IV. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The duties of the Energy Efficiency Utility shall not be expanded at this time to include financial support for combined heat and power projects. However, the EEU may discuss CHP projects as they relate to other energy-efficiency measures and may direct customers to the Department regarding specific information concerning CHP projects.
2. The Department of Public Service has proposed a program designed to support CHP development in Vermont. The Board approves of the Department's proposal and encourages the Department to work with utilities and other interested parties to further define and implement the program.

Dated at Montpelier, Vermont, this 8th day of January, 2007.

<u>s/James Volz</u>)	
)	PUBLIC SERVICE
)	
<u>s/David C. Coen</u>)	BOARD
)	
)	OF VERMONT
<u>s/John D. Burke</u>)	

OFFICE OF THE CLERK

FILED: January 8, 2007

ATTEST: s/Susan M. Hudson
Clerk of the Board

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)